

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Hastings, Michigan	County Barry
Audit Date June 30, 2005	Opinion Date September 13, 2005	Date Accountant Report Submitted To State: November 9, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature 			

City of Hastings, Michigan

Financial Report with Supplemental Information June 30, 2005



City of Hastings, Michigan

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City of Hastings, Michigan

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Independent Auditor's Report

To the City Council
City of Hastings, Michigan

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hastings, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Hastings, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hastings, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 13, 2005

City of Hastings, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Hastings, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's total net assets increased this fiscal year. The net assets of business-type activities increased by \$304,273 and net assets of our governmental activities increased by \$1,081,135 (including the Internal Service Funds).

During the year, the City had revenues that were \$1,385,408 more than the \$6.5 million in expenses. Of the \$6.5 million total expenses, \$2.0 million related to business-type expenses and the balance of \$4.5 million related to governmental activities.

In the General Fund, revenues and incoming transfers exceeded expenditures and outgoing transfers by \$274,105 for the year.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our non-major governmental and internal service fund.

Government-wide Statements

The City's government-wide statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes and state revenue sharing are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to cover the costs of certain services it provides. The City's water and sewer system and business incubator are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and Local Development Financing Authority. The City is financially accountable for these "component units" although they are legally separate entities.

Fund Financial Statements

The City's fund financial statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

The City has two major fund types that use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- **Proprietary Funds** - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

The following table illustrates the varying results of the governmental and business-type activities that combine to capture the City's total net assets.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 4,471,124	\$ 3,602,831	\$ 2,335,154	\$ 2,400,274	\$ 6,806,278	\$ 6,003,105
Noncurrent assets	<u>5,294,020</u>	<u>4,988,294</u>	<u>11,726,076</u>	<u>11,670,518</u>	<u>17,020,096</u>	<u>16,658,812</u>
Total assets	9,765,144	8,591,125	14,061,230	14,070,792	23,826,374	22,661,917
Current liabilities	651,996	471,828	373,386	255,060	1,025,382	726,888
Long-term liabilities	<u>987,410</u>	<u>1,074,694</u>	<u>2,544,557</u>	<u>2,976,718</u>	<u>3,531,967</u>	<u>4,051,412</u>
Total liabilities	1,639,406	1,546,522	2,917,943	3,231,778	4,557,349	4,778,300
Net assets:						
Invested in capital assets -						
Net of related debt	4,447,946	4,135,130	8,535,180	8,136,054	12,983,126	12,271,184
Restricted	1,795,047	1,761,154	1,111,776	1,090,522	2,906,823	2,851,676
Unrestricted	<u>1,882,745</u>	<u>1,148,319</u>	<u>1,496,331</u>	<u>1,612,438</u>	<u>3,379,076</u>	<u>2,760,757</u>
Total net assets	<u>\$ 8,125,738</u>	<u>\$ 7,044,603</u>	<u>\$ 11,143,287</u>	<u>\$ 10,839,014</u>	<u>\$ 19,269,025</u>	<u>\$ 17,883,617</u>

Net assets of the City's governmental activities increased by 15.3 percent to \$8,125,738. This increase is due to revenues exceeding expenses.

Net assets of business-type activities increased by 2.8 percent to \$11,143,287 during the fiscal year. This increase is due to revenues exceeding expenses.

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of net assets during the current year.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 621,446	\$ 525,823	\$ 2,075,831	\$ 1,963,002	\$ 2,697,277	\$ 2,488,825
Operating grants and contributions	300,422	232,126	-	938	300,422	233,064
Capital grants and contributions	619,026	230,416	66,840	-	685,866	230,416
General revenue:						
Property taxes	2,496,494	2,402,497	-	-	2,496,494	2,402,497
State-shared revenue	1,295,468	1,323,475	-	-	1,295,468	1,323,475
Unrestricted investment earnings	41,395	18,274	52,475	49,215	93,870	67,489
Transfers and miscellaneous	206,547	206,310	105,429	89,943	311,976	296,253
Total revenue	5,580,798	4,938,921	2,300,575	2,103,098	7,881,373	7,042,019
Program Expenses						
General government	184,436	167,318	-	-	184,436	167,318
Public safety	2,277,007	2,521,027	-	-	2,277,007	2,521,027
Public works	786,204	928,053	-	-	786,204	928,053
Community and economic development	579,572	187,813	-	-	579,572	187,813
Recreation and culture	672,444	1,309,365	-	-	672,444	1,309,365
Water and sewer	-	-	1,839,919	1,811,781	1,839,919	1,811,781
Business incubator	-	-	156,383	153,684	156,383	153,684
Total program expenses	4,499,663	5,113,576	1,996,302	1,965,465	6,495,965	7,079,041
Change in Net Assets	\$ 1,081,135	\$ (174,655)	\$ 304,273	\$ 137,633	\$ 1,385,408	\$ (37,022)

Governmental Activities

The City's total governmental revenues increased by \$641,877 despite a decrease of \$28,007 in state-shared revenue. The increase included property taxes generated by an increase in taxable property values approximating the rate of inflation and more significant increases in charges for services and grants and contributions.

Total governmental expenses decreased by \$613,913 during the year. Increases were led by large increases in health care costs (although this trend moderated slightly from very recent experience) and wage and other benefit cost increases approximating the rate of inflation. To offset this, the City closely monitored its spending in all other areas. At the close of the fiscal year, some governmental functions had not spent all funds that had been planned.

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer System and a Business Incubator. Operating revenues of the City's business-type activities were \$2,300,575 (an increase of \$197,477), while operating expenses were \$1,996,302 (an increase of \$30,837), resulting in net income of \$304,273 (an increase of \$166,640) in its business-type activity operations.

The City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$4.8 million.

- The governmental internal service funds (equipment and administrative services) comprised \$1.7 million of the total.
- The library fund had a fund balance of \$1.69 million. Of this amount, \$1.34 million had been raised and is reserved for construction of a new library building.
- General State revenue sharing decreased by 1.2 percent or about \$9,000 from the prior year. While the decrease is less than the 10 percent reported a year ago, this continued a multi-year trend of decreasing state shared revenue which once exceeded one million dollars per year (\$769,009 was received this year.)
- The City's employment levels remained stable (one supervisory retirement was not replaced; contracted services were engaged to partially replace the function). Wage and most benefit increases were limited to the rate of inflation or less. However, the cost of health care benefits continued to increase significantly at about four times the rate of general inflation.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Significant changes included:

- An addition to capital outlay expense in the Fire Department of \$27,110.
- Recognition of revenues and expenditures relating to a CDBG grant for \$182,900 for Rental Unit Rehabilitation.
- Creation of a Drug Enforcement Fund by transfer of restricted assets from the General Fund.

General Fund revenue and incoming transfers for the year were 99.47 percent of budget (\$21,565 under achieved out of \$4.05 million).

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights (Continued)

General Fund expenditures were 89.11 percent of budget (\$458,701 under-spent out of \$4.21 million). Outgoing transfers to the Local Street Fund were well under budget (54 percent) as work progressed more slowly than planned. In other areas, some projects, especially grant funded ones, also progressed significantly slower than planned resulting in under spending. Some of these projects will be re-appropriated in the subsequent fiscal year.

Capital Assets

At June 30, 2005, the City had invested approximately \$16.5 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, and water and sewer lines (See table below).

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,367,783	\$ 1,367,783	\$ 119,200	\$ 119,200	\$ 1,486,983	\$ 1,486,983
Construction-in-progress	158,338	-	1,745	23,957	160,083	23,957
Land improvement	639,935	311,840	-	2,837	639,935	314,677
Buildings and building improvements	2,620,971	2,555,595	8,801,983	8,721,854	11,422,954	11,277,449
Machinery, equipment, and vehicles	3,763,002	3,912,604	669,022	670,222	4,432,024	4,582,826
Water distribution system	-	-	5,478,408	5,079,275	5,478,408	5,079,275
Sewage disposal system	-	-	1,970,384	1,923,331	1,970,384	1,923,331
Subtotal assets	8,550,029	8,147,822	17,040,742	16,540,676	25,590,771	24,688,498
Accumulated depreciation	3,362,083	3,202,692	5,688,496	5,314,577	9,050,579	8,517,269
Net capital assets	<u>\$ 5,187,946</u>	<u>\$ 4,945,130</u>	<u>\$ 11,352,246</u>	<u>\$ 11,226,099</u>	<u>\$ 16,540,192</u>	<u>\$ 16,171,229</u>

City of Hastings, Michigan

Management's Discussion and Analysis (Continued)

Debt

At year-end the City had \$3.56 million in bonds and notes outstanding. This represents an approximate \$340,000 decrease from the previous year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors and Next Year's Budget Rates

The City's budget for next year will necessarily be based on the same property tax rates as the current year. Some revenue growth, again approximately the rate of inflation, can be anticipated due to growth in the taxable value of property in the City. The impact of Proposal A will continue to demand that the City continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five percent. Because some properties increase in value by less than inflation, the mathematical result is that the total taxable value for the City will grow less than inflation, before considering property additions. While the City does experience some growth from new property additions the difficult national and state economies have limited and are expected to continue to curtail revenue growth from this source. The City may be able to partially offset this revenue constraint with increasing funding from grants and contributions, although these will be for specific and limited purposes.

The economic and fiscal circumstances facing the City will absolutely require that the City's elected and appointed officials continue to carefully evaluate all increases in costs and identify funding sources for any new proposed activity or expansion of current activity. We will continue to seek to limit labor costs, seeking particularly for solutions to the increasing cost of health care benefits, and will continue to evaluate ways and means to achieve the City's service objectives in the most efficient manner possible. We may, necessarily, have to consider selective reductions in certain services and activities.

Contacting the City's Financial Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at the City of Hastings, 201 E. State Street, Hastings, Michigan, 49058.

City of Hastings, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,042,159	\$ 815,405	\$ 2,857,564	\$ 399,353
Receivables - Net (Note 4)	626,153	324,102	950,255	-
Inventories and prepaid costs	102,473	83,871	186,344	-
Restricted assets (Notes 3 and 8)	1,700,339	1,111,776	2,812,115	-
Long-term advances (Note 6)	(373,830)	373,830	-	-
Investment in joint venture (Note 12)	479,904	-	479,904	-
Capital assets - Net (Note 5)	5,187,946	11,352,246	16,540,192	-
Total assets	9,765,144	14,061,230	23,826,374	399,353
Liabilities				
Accounts payable	455,916	55,706	511,622	14,533
Accrued and other liabilities	86,531	11,861	98,392	-
Deferred revenue (Note 4)	34,549	4,509	39,058	-
Noncurrent liabilities (Note 7):				
Due within one year	75,000	301,310	376,310	-
Due in more than one year	987,410	2,544,557	3,531,967	-
Total liabilities	1,639,406	2,917,943	4,557,349	14,533
Net Assets				
Invested in capital assets - Net of related debt	4,447,946	8,535,180	12,983,126	-
Restricted:				
Revenue bond reserves (Note 8)	-	1,111,776	1,111,776	-
Streets and highways	94,708	-	94,708	-
Other purposes (Note 8)	1,700,339	-	1,700,339	-
Unrestricted	1,882,745	1,496,331	3,379,076	384,820
Total net assets	\$ 8,125,738	\$ 11,143,287	\$ 19,269,025	\$ 384,820

City of Hastings, Michigan

			Program Revenues		
	Expenses	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 1,051,702	\$ (867,266)	\$ 169,336	\$ 100	\$ 15,000
Public safety	1,730,629	546,378	321,610	-	-
Public works	664,787	121,417	91,220	25,015	333,375
Community and economic development	449,482	130,090	-	-	-
Recreation and culture	603,063	69,381	39,280	275,307	270,651
Total governmental activities	4,499,663	-	621,446	300,422	619,026
Business-type activities:					
Water and sewer	1,839,919	-	2,009,978	-	66,840
Business incubator	156,383	-	65,853	-	-
Total business-type activities	1,996,302	-	2,075,831	-	66,840
Total primary government	\$ 6,495,965	\$ -	\$ 2,697,277	\$ 300,422	\$ 685,866
Component units:					
Downtown Development Authority	\$ 398,116	\$ -	\$ -	\$ -	\$ -
Local Development Financing Authority	20,700	-	-	-	-
Total component units	\$ 418,816	\$ -	\$ -	\$ -	\$ -
General revenues:					
Property taxes					
State-shared revenues					
Unrestricted investment earnings					
Miscellaneous					
Transfers					
Total general revenues and transfers					
Change in Net Assets					
Net Assets - Beginning of year					
Net Assets - End of year					

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ -	\$ -	\$ -	\$ -
(1,955,397)	-	(1,955,397)	-
(336,594)	-	(336,594)	-
(579,572)	-	(579,572)	-
(87,206)	-	(87,206)	-
(2,958,769)	-	(2,958,769)	-
-	236,899	236,899	-
-	(90,530)	(90,530)	-
-	146,369	146,369	-
(2,958,769)	146,369	(2,812,400)	-
-	-	-	(398,116)
-	-	-	(20,700)
-	-	-	(418,816)
2,496,494	-	2,496,494	403,949
1,295,468	-	1,295,468	-
41,395	52,475	93,870	6,292
279,090	32,886	311,976	1,700
(72,543)	72,543	-	-
4,039,904	157,904	4,197,808	411,941
1,081,135	304,273	1,385,408	(6,875)
7,044,603	10,839,014	17,883,617	391,695
\$ 8,125,738	\$ 11,143,287	\$ 19,269,025	\$ 384,820

City of Hastings, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Library Fund	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 860,962	\$ 203,443	\$ 142,879	\$ 300,601	\$ 1,507,885
Receivables - Net (Note 4)	316,763	9,734	128,579	167,734	622,810
Restricted assets (Notes 3 and 8)	-	1,381,334	-	319,005	1,700,339
Due from other funds (Note 6)	-	130,548	-	-	130,548
Inventories and prepaid costs	21,758	147	899	2,474	25,278
Total assets	<u>\$ 1,199,483</u>	<u>\$ 1,725,206</u>	<u>\$ 272,357</u>	<u>\$ 789,814</u>	<u>\$ 3,986,860</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 108,674	\$ 36,789	\$ 165,832	\$ 92,352	\$ 403,647
Accrued and other liabilities	69,455	-	-	-	69,455
Due to other funds	-	-	-	130,548	130,548
Advances due to other funds	16,465	-	-	-	16,465
Deferred revenue (Note 4)	8,403	-	105,626	109,000	223,029
Total liabilities	202,997	36,789	271,458	331,900	843,144
Fund Balances					
Reserved for:					
Capital campaign and memorial (Note 8)	-	1,381,334	-	-	1,381,334
Charitable trust (Note 8)	-	-	-	319,005	319,005
Inventories and prepaid costs	21,758	147	899	2,474	25,278
Unreserved, reported in:					
General Fund	974,728	-	-	-	974,728
Special Revenue Funds	-	306,936	-	136,435	443,371
Total fund balances	<u>996,486</u>	<u>1,688,417</u>	<u>899</u>	<u>457,914</u>	<u>3,143,716</u>
Total liabilities and fund balances	<u>\$ 1,199,483</u>	<u>\$ 1,725,206</u>	<u>\$ 272,357</u>	<u>\$ 789,814</u>	<u>3,986,860</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,816,553
Investment in joint venture is not a financial resource and is not reported in the funds	479,904
Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	188,480
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(183,362)
Internal Service Funds are included as part of governmental activities	<u>1,680,447</u>
Net assets of governmental activities	<u>\$ 8,125,738</u>

City of Hastings, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General	Library	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 2,496,494	\$ -	\$ -	\$ -	\$ 2,496,494
State sources	784,109	11,353	173,881	366,240	1,335,583
Local sources	195,938	275,307	-	-	471,245
Federal sources	-	-	-	11,000	11,000
Special assessments	-	-	38,174	-	38,174
Charges for services	380,300	4,894	3,959	-	389,153
Fines and forfeitures	13,882	34,386	-	405	48,673
Interest and rentals	94,414	28,332	-	3,124	125,870
Other	45,491	280,749	216,296	45,624	588,160
Total revenue	4,010,628	635,021	432,310	426,393	5,504,352
Expenditures					
Current:					
General government	229,713	-	-	-	229,713
Public safety	2,353,294	-	-	-	2,353,294
Parks and recreation	141,513	-	-	-	141,513
Parking and enforcement	32,680	-	-	-	32,680
Economic development	119,979	-	-	-	119,979
Construction	-	-	259,291	136,448	395,739
Maintenance	-	-	357,646	315,869	673,515
Library	-	670,935	-	-	670,935
Police training	-	-	-	6,880	6,880
Distribution to library	-	-	-	22,974	22,974
Community promotion and other	398,919	-	-	65	398,984
Total expenditures	3,276,098	670,935	616,937	482,236	5,046,206
Excess of Revenue Over (Under) Expenditures	734,530	(35,914)	(184,627)	(55,843)	458,146
Other Financing Sources (Uses)					
Transfers in	16,448	268,645	167,760	41,477	494,330
Transfers out	(476,873)	-	-	(90,000)	(566,873)
Total other financing sources (uses)	(460,425)	268,645	167,760	(48,523)	(72,543)
Net Change in Fund Balances	274,105	232,731	(16,867)	(104,366)	385,603
Fund Balances - Beginning of year	722,381	1,455,686	17,766	562,280	2,758,113
Fund Balances - End of year	<u>\$ 996,486</u>	<u>\$ 1,688,417</u>	<u>\$ 899</u>	<u>\$ 457,914</u>	<u>\$ 3,143,716</u>

City of Hastings, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total governmental funds	\$ 385,603
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	709,603
Depreciation on general fixed assets is recorded in the statement of activities; it is not reported at the fund level	(258,502)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	51,075
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	109,000
Loss on investment in joint venture is not reported as expenditures in the governmental funds	(7,679)
Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	10,871
Internal Service Funds are also included as governmental activities	<u>81,164</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,081,135</u>

City of Hastings, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Business-type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water Supply and Sewage Disposal System Fund	Business Incubator	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash (Note 3)	\$ 765,643	\$ 49,762	\$ 815,405	\$ 534,274
Receivables - Net (Note 4)	287,103	36,999	324,102	3,343
Inventories and prepaid costs	83,628	243	83,871	77,195
Total current assets	1,136,374	87,004	1,223,378	614,812
Noncurrent assets:				
Restricted assets (Notes 3 and 8)	1,111,776	-	1,111,776	-
Advances due from other funds (Note 6)	452,486	-	452,486	16,465
Capital assets (Note 5)	10,720,889	631,357	11,352,246	2,371,393
Total noncurrent assets	12,285,151	631,357	12,916,508	2,387,858
Total assets	13,421,525	718,361	14,139,886	3,002,670
Liabilities				
Current liabilities:				
Accounts payable	54,612	1,094	55,706	52,269
Accrued and other liabilities	4,462	7,399	11,861	17,076
Deferred revenue	4,509	-	4,509	-
Current portion of long-term debt (Note 7)	301,310	-	301,310	75,000
Total current liabilities	364,893	8,493	373,386	144,345
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	27,832	969	28,801	139,048
Long-term advances from other funds (Note 6)	-	78,656	78,656	373,830
Long-term debt - Net of current portion (Note 7)	2,515,756	-	2,515,756	665,000
Total noncurrent liabilities	2,543,588	79,625	2,623,213	1,177,878
Total liabilities	2,908,481	88,118	2,996,599	1,322,223
Net Assets				
Invested in capital assets - Net of related debt	7,903,823	631,357	8,535,180	1,257,563
Restricted - Revenue bond reserves	1,111,776	-	1,111,776	-
Unrestricted	1,497,445	(1,114)	1,496,331	422,884
Total net assets	<u>\$ 10,513,044</u>	<u>\$ 630,243</u>	<u>\$ 11,143,287</u>	<u>\$ 1,680,447</u>

City of Hastings, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Business-type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water and Sewer	Business Incubator	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Charges for services	\$ 2,032,961	\$ 12,481	\$ 2,045,442	\$ 1,789,063
Rental income	-	53,372	53,372	-
Other	6,137	1,782	7,919	-
Total operating revenue	2,039,098	67,635	2,106,733	1,789,063
Operating Expenses				
Personnel services	422,500	35,561	458,061	823,768
Contractual and professional services	189,776	1,660	191,436	162,972
Supplies and chemicals	104,133	2,360	106,493	150,786
Heat, light, and power	138,813	56,665	195,478	54,711
Insurance	22,986	1,993	24,979	72,963
Equipment rental	71,260	-	71,260	18,612
Maintenance	143,120	12,594	155,714	92,426
Miscellaneous	14,458	20,529	34,987	26,499
Administrative services	224,573	-	224,573	30,716
Depreciation	354,728	23,826	378,554	231,336
Total operating expenses	1,686,347	155,188	1,841,535	1,664,789
Operating Income (Loss)	352,751	(87,553)	265,198	124,274
Nonoperating Revenue (Expenses)				
Investment income	52,475	-	52,475	7,706
Interest expense	(153,572)	(1,195)	(154,767)	(50,816)
Total nonoperating revenue (expenses)	(101,097)	(1,195)	(102,292)	(43,110)
Income (Loss) - Before transfers	251,654	(88,748)	162,906	81,164
Capital Contributions	68,824	-	68,824	-
Transfers From (to) Other Funds	(16,448)	88,991	72,543	-
Change in Net Assets	304,030	243	304,273	81,164
Net Assets - Beginning of year	10,209,014	630,000	10,839,014	1,599,283
Net Assets - End of year	<u>\$ 10,513,044</u>	<u>\$ 630,243</u>	<u>\$ 11,143,287</u>	<u>\$ 1,680,447</u>

City of Hastings, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water and Sewer	Business Incubator	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,015,473	\$ 47,149	\$ 2,062,622	\$ 1,788,113
Payments to suppliers	(909,904)	(102,133)	(1,012,037)	(570,850)
Payments to employees	(437,337)	(41,239)	(478,576)	(822,439)
Internal activity - Payments to other funds	-	-	-	(93,038)
Other receipts (payments)	6,137	1,782	7,919	-
Net cash provided by (used in) operating activities	674,369	(94,441)	579,928	301,786
Cash Flows from Noncapital Financing Activities				
Operating transfers from (to) other funds	(16,448)	88,991	72,543	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(358,585)	(77,292)	(435,877)	(23,050)
Advances from (to) other funds for capital expenditures	(80,130)	80,130	-	(16,465)
Loan repayments from other funds	72,063	(1,474)	70,589	(70,589)
Principal and interest paid on capital debt	(426,551)	(1,195)	(427,746)	(120,816)
Net cash (used in) provided by capital and related financing activities	(793,203)	169	(793,034)	(230,920)
Cash Flows from Investing Activities				
Interest received on investments	52,475	-	52,475	7,706
Net Increase (Decrease) in Cash	(82,807)	(5,281)	(88,088)	78,572
Cash - Beginning of year	1,960,226	55,043	2,015,269	455,702
Cash - End of year	<u>\$ 1,877,419</u>	<u>\$ 49,762</u>	<u>\$ 1,927,181</u>	<u>\$ 534,274</u>
Balance Sheet Classification of Cash				
Cash	\$ 765,643	\$ 49,762	\$ 815,405	\$ 534,274
Restricted assets (Notes 3 and 8)	1,111,776	-	1,111,776	-
Total cash	<u>\$ 1,877,419</u>	<u>\$ 49,762</u>	<u>\$ 1,927,181</u>	<u>\$ 534,274</u>

City of Hastings, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2005

	Business-type Activities		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Major Fund	Nonmajor Fund		
	Water and Sewer	Business Incubator		
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 352,751	\$ (87,553)	\$ 265,198	\$ 124,274
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	354,728	23,826	378,554	231,336
Changes in assets and liabilities:				
Receivables	(21,997)	(18,704)	(40,701)	(950)
Inventories and prepaid costs	17,976	(243)	17,733	(11,978)
Accounts payable	(18,761)	(6,089)	(24,850)	1,485
Due to other funds	-	-	-	(43,710)
Accrued and other liabilities	(27,081)	(5,562)	(32,643)	2,743
Deferred revenue	4,509	-	4,509	-
Provision for compensated absences	12,244	(116)	12,128	(1,414)
Net cash provided by (used in) operating activities	<u>\$ 674,369</u>	<u>\$ (94,441)</u>	<u>\$ 579,928</u>	<u>\$ 301,786</u>

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended June 30, 2005.

City of Hastings, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2005

	<u>Agency Fund</u>
Assets - Cash and investments	<u><u>\$ 2,473</u></u>
Liabilities - Accounts payable	<u><u>\$ 2,473</u></u>

City of Hastings, Michigan

Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Local Development Financing Authority	Total
Assets			
Cash and investments (Note 3)	\$ 355,951	\$ 43,402	\$ 399,353
Liabilities			
Accounts payable	14,533	-	14,533
Net Assets			
Unrestricted	<u>\$ 341,418</u>	<u>\$ 43,402</u>	<u>\$ 384,820</u>

City of Hastings, Michigan

Component Units Statement of Activities Year Ended June 30, 2005

		Net (Expense) Revenue and Changes in Net Assets		
		Downtown Development Authority	Local Development Financing Authority	Total
	Expenses			
Downtown Development Authority -				
Public works	\$ 398,116	\$ (398,116)	\$ -	\$ (398,116)
Local Development Financing Authority -				
Public works	20,700	-	(20,700)	(20,700)
Total component units	<u>\$ 418,816</u>	(398,116)	(20,700)	(418,816)
General Revenues				
Property taxes		389,177	14,772	403,949
Unrestricted investment earnings		5,728	564	6,292
Miscellaneous		1,700	-	1,700
Total general revenues		396,605	15,336	411,941
Change in Net Assets		(1,511)	(5,364)	(6,875)
Net Assets - Beginning of year		342,929	48,766	391,695
Net Assets - End of year		<u>\$ 341,418</u>	<u>\$ 43,402</u>	<u>\$ 384,820</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Hastings, Michigan (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City of Hastings, Michigan is governed by an elected nine-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

The Local Development Financing Authority (LDFA) and Brownfield Redevelopment Authority were created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. There is no activity in the current year for Brownfield. The governing body, which consists of nine individuals, is selected by the City Council. In addition, their budgets are subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year-end. Interest income on special assessments receivable is not accrued until its due date.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenues from general property taxes, state-shared revenue, and other state sources.

Library Fund - The Library Fund accounts for the activities of the Library and the Library Capital Campaign.

Local Street Fund - The Local Street Fund accounts for activities related to the construction and maintenance of all non-major roads within the City.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

Water Supply and Sewage Disposal System Fund - The Water Supply and Sewage Disposal System Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds account for revenues and expenses that are earmarked for specific purposes.

Nonexpendable Trust Fund - The Nonexpendable Trust Fund accounts for the assets of the Library Endowment Fund in which the interest can be used for the operations of the Library.

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash includes cash on hand, demand deposits, and certificate of deposits. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, and Component Units is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other fund." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Beginning July 1, 2003, the City reports infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water distribution system	67 years
Sewage disposal system	67 years
Buildings and building improvements	30 to 50 years
Land improvements	10 to 20 years
Machinery, equipment, and vehicles	5 to 10 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond discounts are deferred and amortized over the life of the bonds using effective interest method. Bonds payable are reported net of the applicable bond discount.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund, Library Fund, and Local Streets Fund is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the Major Streets Fund, is presented as other supplemental information. A comparison of actual results of operations to the Police Training, Drug Awareness Fund and Drug Enforcement Fund budget as adopted by the City Council is available at the clerk's office for inspection.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted in the Local Streets Fund construction expense due to the recording of contributed infrastructure.

Compliance - During the year, the City purchased common stock which is a violation of Michigan Public Act 20.

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated seven banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, certificates of deposit, and investment pools composed of investment vehicles which are legal for direct investment by local units of government, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City requires financial institutions be evaluated and only those with an acceptable risk level are used. At year end, the City had \$4,609,958 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had \$295,895 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

Note 3 - Cash and Investments (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Fair Value	How Held
U. S. Government agency bonds	\$ 399,819	Counterparty's Trust Department
Common Stock	\$ 1,025	Counterparty's Trust Department

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts investment maturities to not exceed two years.

Credit Risk

The City's investment policy does not limit its investment choices based on the investment rating. At year end, the maturities of investments and the credit quality ratings of debt and equity securities are as follows:

Investment	Fair Value	Weighted Average Maturities	Rating	Rating Organization
U.S. Government agency bonds	\$ 399,819	2.9 years	AAA	Standards & Poor

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

Receivables as of year end for the City's individual major funds, nonmajor and Internal Service in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities				Business-type Activities	
	General	Library	Local Streets	Other Nonmajor Funds	Water Supply and Sewage Disposal System	Other Nonmajor Funds
Receivables:						
Taxes	\$ 49,039	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts	-	-	-	-	278,013	36,999
Intergovernmental	261,992	5,670	49,099	171,077	4,581	-
Interest and other	5,732	4,064	79,480	-	4,509	-
Net receivables	<u>\$ 316,763</u>	<u>\$ 9,734</u>	<u>\$ 128,579</u>	<u>\$ 171,077</u>	<u>\$ 287,103</u>	<u>\$ 36,999</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 79,480	\$ -
Grant and other payments received prior to meeting all eligibility requirements	<u>109,000</u>	<u>34,549</u>
Total	<u>\$ 188,480</u>	<u>\$ 34,549</u>

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,367,783	\$ -	\$ -	\$ -	\$ 1,367,783
Construction-in-progress	-	-	158,338	-	158,338
Subtotal	1,367,783	-	158,338	-	1,526,121
Capital assets being depreciated:					
Land improvements	311,840	(44,525)	372,620	-	639,935
Buildings and building improvements	2,555,595	50,545	14,831	-	2,620,971
Machinery, equipment and vehicles	3,912,604	(6,020)	245,498	(389,080)	3,763,002
Subtotal	6,780,039	-	632,949	(389,080)	7,023,908
Accumulated depreciation:					
Depreciable capital assets	3,202,692	-	489,838	(330,447)	3,362,083
Net capital assets being depreciated	3,577,347	-	143,111	(58,633)	3,661,825
Net capital assets	\$ 4,945,130	\$ -	\$ 301,449	\$ (58,633)	\$ 5,187,946
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 119,200	\$ -	\$ -	\$ -	\$ 119,200
Construction-in-progress	23,957	(23,957)	1,745	-	1,745
Subtotal	143,157	(23,957)	1,745	-	120,945
Capital assets being depreciated:					
Water distribution system	5,079,275	23,957	375,176	-	5,478,408
Sewage disposal system	1,923,331	-	47,053	-	1,970,384
Land improvements	2,837	-	-	(2,837)	-
Buildings and building improvements	8,721,854	-	80,129	-	8,801,983
Machinery and equipment	670,222	-	3,550	(4,750)	669,022
Subtotal	16,397,519	23,957	505,908	(7,587)	16,919,797
Accumulated depreciation:					
Depreciable capital assets	5,314,577	-	378,554	(4,635)	5,688,496
Net capital assets being depreciated	11,082,942	23,957	127,354	(2,952)	11,231,301
Net capital assets	\$ 11,226,099	\$ -	\$ 129,099	\$ (2,952)	\$ 11,352,246

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 52,257
Public safety	49,139
Public works	4,046
Economic development	9,414
Recreation and culture	143,646
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>231,336</u>

Total governmental activities	<u>\$ 489,838</u>
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Business-type activities:

Business Incubator	\$ 23,826
Water Supply and Sewage Disposal System Fund	<u>354,728</u>

Total business-type activities	<u>\$ 378,554</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from Other Funds		
Library Fund	Other nonmajor governmental funds	<u>\$ 130,548</u>
Advances from Other Funds		
Internal Service Funds	General Fund	16,465
Water Supply and Sewage Disposal System Fund	Internal Service Funds	373,830
Water Supply and Sewage Disposal System Fund	Economic Incubator Fund	<u>78,656</u>
	Total	<u>\$ 468,951</u>

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The advance from the Water Supply and Sewage Disposal System Fund to the Internal Service Funds was for the purchase of an aerial platform fire truck in the amount of \$426,855, and a copier and related software in the amount of \$17,564. Interest is charged on the outstanding balance at six percent and three percent, respectively. The advance from the Water Supply and Sewage Disposal System Fund to the Economic Incubator Fund was for the replacement of the roof on the incubator facility in the amount of \$80,130. Interest is charged on the outstanding balance at six percent. The advance from the Internal Service Funds to the General Fund was for the purchase of a vehicle in the amount of \$32,672. Interest is charged on the outstanding balance at six percent.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Library Fund	\$ 268,645
General Fund	Local Streets	77,760
General Fund	Other nonmajor governmental funds	130,468
Other nonmajor governmental funds	Local Streets	90,000
Water Supply and Sewage Disposal System Fund	General Fund	<u>16,448</u>
Total		<u>\$ 583,321</u>

The transfers between funds represent the use of unrestricted resources to finance the various programs in accordance with budgetary authorizations.

Note 7 - Long-term Debt

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligations:					
Installment Purchase Agreement					
Amounts of issue: \$1,155,000					
Maturing through: October 1, 2012	\$ 810,000	\$ -	\$ (70,000)	\$ 740,000	\$ 75,000
Other long-term obligations:					
Compensated absences	334,694	-	(12,284)	322,410	-
Total governmental activities	<u>\$ 1,144,694</u>	<u>\$ -</u>	<u>\$ (82,284)</u>	<u>\$ 1,062,410</u>	<u>\$ 75,000</u>
Business-type Activities					
Revenue bonds:					
1992 Revenue Bonds					
Amounts of issue: \$1,635,000					
Maturing through: July 1, 2007	\$ 485,190	\$ -	\$ (148,460)	\$ 336,730	\$ 163,365
1997 Revenue Bonds					
Amounts of issue: \$3,300,000					
Maturing through: May 1, 2017	2,604,855	-	(124,519)	2,480,336	137,945
Other long-term obligations:					
Compensated absences	16,673	12,128	-	28,801	-
Total business-type activities	<u>\$ 3,106,718</u>	<u>\$ 12,128</u>	<u>\$ (272,979)</u>	<u>\$ 2,845,867</u>	<u>\$ 301,310</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 75,000	\$ 34,774	\$ 109,774
2007	80,000	30,938	110,938
2008	85,000	26,854	111,854
2009	100,000	12,375	112,375
2010	100,000	19,800	119,800
2011-2013	300,000	29,700	329,700
Total	<u>\$ 740,000</u>	<u>\$ 154,441</u>	<u>\$ 894,441</u>

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-Term Debt (Continued)

	Business-type Activities		
	Principal	Interest	Total
2006	\$ 301,310	\$ 154,572	\$ 455,882
2007	325,000	136,010	461,010
2008	165,000	112,030	277,030
2009	175,000	103,780	278,780
2010	185,000	95,030	280,030
2011-2015	1,130,000	322,212	1,452,212
2016-2017	535,756	43,350	579,106
Total	<u>\$ 2,817,066</u>	<u>\$ 966,984</u>	<u>\$ 3,784,050</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities
Capital campaign	\$ 1,342,984	\$ -
Library memorial fund	38,350	-
Charitable trust	319,005	-
Revenue bond restrictions:		
Operation and maintenance fund	-	474,432
Bond reserve fund	-	473,500
Replacement fund	-	125,000
Bond and interest redemption	-	38,844
Total restricted assets	<u>\$ 1,700,339</u>	<u>\$ 1,111,776</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League (risk pool) for claims relating to property loss, torts, errors and omissions, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way., Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiations with the City's competitive bargaining units and requires no contributions from the employees.

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost of \$330,431 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) additional projected salary increases ranging from zero to 4.16 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

City of Hastings, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plan (Continued)

Three-Year Trend Information

Fiscal Year Ended June 30	2003	2004	2005
Annual pension costs (APC)	\$ 298,840	\$ 318,795	\$ 330,431
Percentage of APC contributed	100	100	100
Net pension obligation	-	-	-
Actuarial Valuation as of December 31	2002	2003	2004
Actuarial value of assets	\$ 7,622,511	\$ 7,978,180	\$ 8,204,231
Actuarial accrued liability (entry age)	10,323,937	10,833,739	11,576,559
Unfunded AAL	2,701,426	2,855,559	3,372,328
Funded ratio	74	74	71
Covered payroll	2,313,026	2,297,798	2,193,664
UAAL as a percentage of covered payroll	117	124	154

Note 11 - Other Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 42 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant for retirees before 1992. After 1992, the retirees are required to contribute 10 percent of the premium. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$280,000.

Upcoming reporting change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

Note 12 - Investment in Joint Venture

The Airport Commission was formed by an agreement in 1977 between the Hastings City Council and the Barry County Board of Commissioners. The Commission consists of five members, two residents of Barry County appointed by the Barry County Board of Commissioners, two residents of the City of Hastings appointed by the Hastings City Council, and one member appointed by the other four. It is responsible for acquisition of property, constructing, operating, and maintaining airport facilities. Ownership of property is vested in the City. It may exercise on behalf of the political subdivision by which it was created, all powers of each such political subdivision. It may not issue debt without approvals from the City and County. It is designated as the agent for any federal or state airport aid.

The agreement requires that each governmental unit provide 50 percent of the net budget appropriation requirements and that financial record keeping be maintained by the County. During the current year, the City contributed approximately \$30,600 for its operations. This is presented as a component unit in the County's financial statements. The financial statements may be obtained at the Barry County Office, 220 West State, Hastings, MI 49058. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future.

The City of Hastings equity in this joint venture as of June 30, 2005 is \$479,904, which is recorded in the governmental activities of the City.

Required Supplemental Information

City of Hastings, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 721,873	\$ 722,381	\$ 722,381	\$ -
Resources (Inflows)				
Property taxes	2,362,105	2,361,945	2,496,494	134,549
Federal sources	-	182,900	-	(182,900)
State sources	745,936	745,936	788,997	43,061
Local sources	187,438	195,938	195,938	-
Charges for services	405,805	385,474	380,300	(5,174)
Fines and forfeitures	22,000	22,000	13,882	(8,118)
Licenses and permits	31,000	31,000	30,683	(317)
Other	105,000	107,000	104,334	(2,666)
Transfer from other funds	16,448	16,448	16,448	-
Amounts available for appropriation	3,875,732	4,048,641	4,027,076	(21,565)
Charges to Appropriations (Outflows)				
General government:				
City council	57,609	57,609	58,983	(1,374)
Clerk elections	17,250	17,250	11,916	5,334
City assessor	160,020	160,020	158,814	1,206
Public safety:				
Police	1,706,514	1,706,515	1,577,288	129,227
Fire	745,350	772,461	776,006	(3,545)
Parks and recreation	177,680	177,680	141,513	36,167
Parking and enforcement	42,465	42,465	36,790	5,675
Economic development	118,161	265,562	115,869	149,693
Community promotion and other	463,283	465,283	398,919	66,364
Transfers to other funds	459,374	546,827	476,873	69,954
Total charges to appropriations	3,947,706	4,211,672	3,752,971	458,701
Fund Balance - End of year	\$ 649,899	\$ 559,350	\$ 996,486	\$ 437,136

City of Hastings, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Library Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,398,703	\$ 1,518,116	\$ 1,455,686	\$ (62,430)
Resources (Inflows)				
State sources	8,280	8,280	11,353	3,073
Local sources	262,000	262,000	275,307	13,307
Charges for services	3,230	3,230	4,894	1,664
Interest income	3,300	3,300	4,685	1,385
Interest income - Capital campaign	30,000	30,000	23,647	(6,353)
Fines and forfeitures	30,500	30,500	34,386	3,886
Other	501,230	506,380	280,749	(225,631)
Transfers	268,645	268,645	268,645	-
Amounts available for appropriation	1,107,185	1,112,335	903,666	(208,669)
Charges to Appropriations (Outflows)				
Library	704,194	704,194	670,935	33,259
Fund Balance - End of year	\$ 1,801,694	\$ 1,926,257	\$ 1,688,417	\$ (237,840)

City of Hastings, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ 17,766	\$ 17,766	\$ -
Resources (Inflows)				
State sources	151,683	151,683	173,881	22,198
Special assessments	-	-	38,174	38,174
Charges for services	-	-	3,959	3,959
Other	21,000	21,000	216,296	195,296
Transfer from other funds	<u>222,420</u>	<u>234,654</u>	<u>167,760</u>	<u>(66,894)</u>
Amounts available for appropriation	395,103	407,337	600,070	192,733
Charges to Appropriations (Outflows)				
Construction	-	30,000	259,291	(229,291)
Maintenance	<u>395,103</u>	<u>395,103</u>	<u>357,646</u>	<u>37,457</u>
Total charges to appropriations	<u>395,103</u>	<u>425,103</u>	<u>616,937</u>	<u>(191,834)</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 899</u>	<u>\$ 899</u>

Other Supplemental Information

City of Hastings, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 203,069	\$ 238,957	\$ 238,957	\$ -
Resources (Inflows)				
State sources	456,519	370,519	363,124	(7,395)
Federal sources	-	120,000	11,000	
Other	12,000	20,000	23,045	3,045
Amounts available for appropriation	468,519	510,519	397,169	(4,350)
Charges to Appropriations (Outflows)				
Construction	198,934	240,934	136,448	104,486
Maintenance	379,657	379,656	315,869	63,787
Transfer to other funds	90,000	90,000	90,000	-
Total charges to appropriations	668,591	710,590	542,317	168,273
Fund Balance - End of year	\$ 2,997	\$ 38,886	\$ 93,809	\$ 54,923

City of Hastings, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Nonmajor Special Revenue Funds				
			Police		
	Major	Drug	Training and	Nonexpendable	Total Nonmajor
	Streets	Enforcement	Drug Awareness	Trust Fund	Governmental
					Funds
Assets					
Cash and investments	\$ 124,725	\$ 38,286	\$ 7,042	\$ 130,548	\$ 300,601
Receivables - Net	167,734	-	-	-	167,734
Inventories and prepaid costs	2,474	-	-	-	2,474
Restricted assets	-	-	-	319,005	319,005
Total assets	<u>\$ 294,933</u>	<u>\$ 38,286</u>	<u>\$ 7,042</u>	<u>\$ 449,553</u>	<u>\$ 789,814</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 92,124	\$ -	\$ 228	\$ -	\$ 92,352
Due to other funds	-	-	-	130,548	130,548
Deferred revenue	109,000	-	-	-	109,000
Total liabilities	201,124	-	228	130,548	331,900
Fund Balances					
Reserved					
Inventories and prepaid costs	2,474	-	-	-	2,474
Charitable trust	-	-	-	319,005	319,005
Unreserved	91,335	38,286	6,814	-	136,435
Total fund balances	<u>93,809</u>	<u>38,286</u>	<u>6,814</u>	<u>319,005</u>	<u>457,914</u>
Total liabilities and fund balances	<u>\$ 294,933</u>	<u>\$ 38,286</u>	<u>\$ 7,042</u>	<u>\$ 449,553</u>	<u>\$ 789,814</u>

City of Hastings, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	Nonmajor Special Revenue Funds				Total
	Major	Drug	Police	Nonexpendable	Nonmajor
	Streets	Enforcement	Training and Drug Awareness	Trust Fund	Governmental Funds
Revenue					
State sources	\$ 363,124	\$ -	\$ 3,116	\$ -	\$ 366,240
Federal sources	11,000	-	-	-	11,000
Fines and forfeitures	-	405	-	-	405
Interest	2,974	87	63	-	3,124
Other	20,071	-	2,579	22,974	45,624
Total revenue	397,169	492	5,758	22,974	426,393
Expenditures					
Current:					
Construction	136,448	-	-	-	136,448
Maintenance	315,869	-	-	-	315,869
Police training	-	-	6,880	-	6,880
Distribution to library	-	-	-	22,974	22,974
Other	-	65	-	-	65
Total expenditures	452,317	65	6,880	22,974	482,236
Excess of Revenue Over (Under)					
Expenditures	(55,148)	427	(1,122)	-	(55,843)
Other Financing (Uses) Sources					
Transfers in	-	37,859	3,618	-	41,477
Transfers out	(90,000)	-	-	-	(90,000)
Total other financing sources (uses)	(90,000)	37,859	3,618	-	(48,523)
Net Change in Fund Balances	(145,148)	38,286	2,496	-	(104,366)
Fund Balances - Beginning of year	238,957	-	4,318	319,005	562,280
Fund Balances - End of year	<u>\$ 93,809</u>	<u>\$ 38,286</u>	<u>\$ 6,814</u>	<u>\$ 319,005</u>	<u>\$ 457,914</u>

City of Hastings, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Administrative Services Fund	Equipment Fund	Total
Assets			
Current assets:			
Cash and investments	\$ (45,126)	\$ 579,400	\$ 534,274
Due from other governmental units	-	3,343	3,343
Prepaid costs	75,337	1,858	77,195
Total current assets	30,211	584,601	614,812
Noncurrent assets:			
Capital assets	1,451,642	919,751	2,371,393
Advances to other funds	-	16,465	16,465
Total assets	1,481,853	1,520,817	3,002,670
Liabilities			
Current liabilities:			
Accounts payable	44,905	7,364	52,269
Accrued and other liabilities	16,488	588	17,076
Current portion of long-term debt	75,000	-	75,000
Total current liabilities	136,393	7,952	144,345
Noncurrent liabilities:			
Provision for compensated absences	131,880	7,168	139,048
Long-term advance from other funds	11,829	362,001	373,830
Long-term debt - Net of current portion	665,000	-	665,000
Total liabilities	945,102	377,121	1,322,223
Net Assets			
Invested in capital assets - Net of related debt	699,813	557,750	1,257,563
Unrestricted	(163,062)	585,946	422,884
Total net assets	<u>\$ 536,751</u>	<u>\$ 1,143,696</u>	<u>\$ 1,680,447</u>

City of Hastings, Michigan

Other Supplemental Information

Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2005

	Administrative Services Fund	Equipment Fund	Total
Operating Revenue			
Charges for services	\$ 1,259,879	\$ 529,184	\$ 1,789,063
Operating Expenses			
Personnel services	761,692	62,076	823,768
Contractual and professional services	162,972	-	162,972
Supplies and chemicals	45,224	105,562	150,786
Heat, light, and power	36,241	18,470	54,711
Insurance	55,229	17,734	72,963
Equipment rental	13,780	4,832	18,612
Maintenance	28,827	63,599	92,426
Miscellaneous	19,030	7,469	26,499
Administrative services	-	30,716	30,716
Depreciation	61,316	170,020	231,336
Total operating expenses	<u>1,184,311</u>	<u>480,478</u>	<u>1,664,789</u>
Operating Income	75,568	48,706	124,274
Nonoperating Income (Loss)			
Investment income	-	7,706	7,706
Interest expense	<u>(38,817)</u>	<u>(11,999)</u>	<u>(50,816)</u>
Total nonoperating income (loss)	<u>(38,817)</u>	<u>(4,293)</u>	<u>(43,110)</u>
Change in Net Assets	36,751	44,413	81,164
Net Assets - Beginning of year	<u>500,000</u>	<u>1,099,283</u>	<u>1,599,283</u>
Net Assets - End of year	<u><u>\$ 536,751</u></u>	<u><u>\$ 1,143,696</u></u>	<u><u>\$ 1,680,447</u></u>

City of Hastings, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Administrative Services Fund	Equipment Fund	Total
Cash Flows from Operating Activities			
Receipts from other funds	\$ 1,259,879	\$ 528,234	\$ 1,788,113
Payments to suppliers	(354,001)	(216,849)	(570,850)
Payments to employees	(761,242)	(61,197)	(822,439)
Internal activity - Payments to other funds	(57,490)	(35,548)	(93,038)
Net cash provided by operating activities	87,146	214,640	301,786
Cash Flows from Capital and Related Financing Activities			
Principal and interest paid on capital debt	(108,817)	(11,999)	(120,816)
Advances to other funds for capital expenditures	-	(16,465)	(16,465)
Loan repayments to other funds	(5,735)	(64,854)	(70,589)
Purchase of capital assets	(17,720)	(5,330)	(23,050)
Net cash used in capital and related financing activities	(132,272)	(98,648)	(230,920)
Cash Flows from Investing Activities			
Interest received on investments	-	7,706	7,706
Net Increase (Decrease) in Cash and Investments	(45,126)	123,698	78,572
Cash and Investments - July 1, 2004	-	455,702	455,702
Cash and Investments - June 30, 2005	<u>\$ (45,126)</u>	<u>\$ 579,400</u>	<u>\$ 534,274</u>
Reconciliation of operating income to net cash from operating activities:			
Operating income	\$ 75,568	\$ 48,706	\$ 124,274
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	61,316	170,020	231,336
Changes in assets and liabilities:			
Due from other governmental units	-	(950)	(950)
Prepaid expenses and other assets	(10,120)	(1,858)	(11,978)
Accounts payable	3,642	(2,157)	1,485
Due to other funds	(43,710)	-	(43,710)
Accrued and other liabilities	2,556	187	2,743
Provision for compensated absences	(2,106)	692	(1,414)
Net cash provided by operating activities	<u>\$ 87,146</u>	<u>\$ 214,640</u>	<u>\$ 301,786</u>

City of Hastings, Michigan

Report to the City Council

June 30, 2005

plante

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To the Honorable Mayor and
Members of the City Council
City of Hastings, Michigan

We recently completed our audit of the June 30, 2005 financial statements of the City of Hastings, Michigan. In addition to our report on the financial statements, we would like to present the matters outlined in this report as potential opportunities for improvements to the internal controls and efficiency of your Organization. These recommendations and informational comments are presented as outlined below:

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We appreciate the opportunity to be of service to the City of Hastings. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

September 13, 2005

A member of



A worldwide association of independent accounting firms

Recommendations

City of Hastings, Michigan Recommendations

Library Endowment Fund

Stock investments were purchased during the year in the Library Endowment Fund. Purchase of common stock is a violation of Michigan Public Act 20 and is required to be disclosed in the notes to the financial statements and to the State of Michigan. There were several instances of stock purchases along with dividend reinvestments which were used to purchase additional stock from which the dividend originated. Purchases and dividend reinvestments totaled \$20,548.37 during the year. As of June 30, 2005, the Library Endowment Fund had sold the majority of these common stock investments; however, a small amount still existed at year end. This Endowment Fund was established years ago and has been controlled by the Library Board and not the City Treasurer. The City Treasurer does understand that stock investments are in violation of Michigan Public Act 20.

Michigan Public Act 20 authorizes the governmental unit to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances, mutual funds, and investments pools that are composed of authorized investment vehicles. The City's investment policy is more restrictive than Public Act 20 and should be followed appropriately.

When evaluating new or unusual investment vehicles, we strongly encourage compliance with both the City's investment policy and Public Act 20. Further, the financial institutions investing governmental monies should be informed of both the City's investment policy and Public Act 20 to ensure compliance with these requirements.

In addition, in accordance with the Uniform Accounting Procedures issued by the Local Audit and Finance Division of the State of Michigan, the local unit treasurer is the legal custodian of all local unit funds. Therefore, all bank accounts, including the library endowment fund, should be under the treasurer's control.

Library Capital Campaign Contributions

The Library Capital Campaign contributions are recorded in the general ledger based on the cash received. The contributions are received by the Library and a donor listing is maintained by the Library's staff identifying donor names and amounts. As of June 30, 2005, there was approximately \$24,000 more cash recorded in the general ledger than the contribution amount reported on the donor listing. The variances between the general ledger and the donor listing occurred throughout the year. A good internal control structure would require a monthly reconciliation of the cash received (which is recorded in the general ledger) to the donor listing by someone independent of the process. This would ensure that cash received is properly supported by a donor listing. We recommend the Library and City staff work together in an effort to reconcile differences between the general ledger and the donor listing on a monthly basis.

City of Hastings, Michigan Recommendations

Investment Policy

During the year ended June 30, 2005, the City implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This pronouncement requires expanded disclosures in the footnotes to the financial statements of the risks associated with the City's investments, and the City's policies for addressing those risks. GASB 40 separates the risk disclosures into four areas: custodial, interest rate, credit, and foreign currency.

We recommend the City Council update the investment policy to be in compliance with this new standard. In the current year, it appears that the U.S. Government agency bonds have a weighted average maturity of 2.9 years and the City's current investment policy restricts investments to a two year maturity.

In addition, we encourage you to review your investment records to ensure all required information for disclosure is obtained for any investment in your portfolio. It would be appropriate to monitor compliance with this policy with all of the investments maintained by the City.

Tenant Accounts Receivable

The tenant receivables recorded in the Business Incubator Funds represent old outstanding balances. Approximately 70 percent of the receivables are greater than 120 days old, with the oldest dating back to April 2003. We understand the City continues to make an effort to collect these outstanding amounts.

We recommend the City create an allowance account for uncollectible receivables for those that may not be collected within a reasonable amount of time. In addition, the City should consider analyzing these receivables on an annual basis and write off those that are deemed uncollectible.

Unrestricted Net Assets Deficit

At June 30, 2005, both the Administrative Services and Business Incubator Funds had a deficit in unrestricted net assets, however, total net assets remain positive due to the amount invested in the capital assets component.

We recommend the City continue to monitor these funds and develop a strategy to avoid any future need of the City to subsidize these operations.

Other Information

City of Hastings, Michigan

Other Information

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new Pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new Pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

Legislative Matters

City of Hastings, Michigan

Legislative Matters

State Shared Revenue

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored. The budget for fiscal year 2005/2006 is not yet done. While the expectation is that revenue sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at fiscal year 2004/2005 levels, the Legislature still must finalize its budget negotiations and the revenue sharing act will require an amendment to accomplish distribution in this manner. By law, the Legislature and the Governor need to complete their work on the budget by September 30, 2005 and appropriations (like revenue sharing, which is one very large line item in the State's budget) can change during that time.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments revenue sharing and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long-term solution to the State's structural deficit in its General Fund and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State-shared revenue accounts for approximately 19 percent of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2000.

City of Hastings, Michigan

Legislative Matters

State Shared Revenue (Continued)

State Fiscal Year	Constitutional	Statutory	Total	Decrease from 2000
2000	\$442,176	\$462,104	\$904,280	-
2001	\$458,138	\$499,939	\$958,077	N/A
2002	\$462,836	\$454,705	\$917,541	N/A
2003	\$470,841	\$395,247	\$866,088	4.4%
2004	\$465,728	\$312,671	\$778,399	13.9%
2005	\$476,842	\$293,072	\$769,914	14.9%

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$290,000 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the City.

Transportation Matters

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4 percent behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budget.

City of Hastings, Michigan

Legislative Matters

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2005, the City's Headlee maximum property tax rate for its operating levy was 16.0303 mills even though City Charter would allow the City to levy 16.2000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

City of Hastings, Michigan

Legislative Matters

Local Government Finance Model

This spring, the Governor issued an Executive Order assembling a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. This task force has yet to actually have its first meeting and get off the ground. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force will hold its first meeting in September 2005. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

Personal Property Tax

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75 percent of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

City of Hastings, Michigan Legislative Matters

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end June 30, 2005 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.